

**UGANDA DAIRY
PROCESSORS
ASSISTANCE PROJECT
12th Interim Report**

June 2005 – August 2005

**Prepared for
USAID 2001 DAIRY
ENTERPRISE INITIATIVE**

FILE REF: AWARD #GDG-G-00-02-00010-00

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1.0 INTRODUCTION

With this report, the Uganda Dairy Processors project remains on track to substantially meet its goals by the end of the project term. At MEDA's request, USAID granted a no-cost time extension of the project term to 31st December 2005. The main purpose of this extension is to enable MEDA to offer continued UHT product promotional support to Alpha Dairy Products (Alpha) when its' combi-bloc packaging line (250ml brick packs) begins operation. Commissioning of this line has been delayed by technical factors.

The overall goal of the project is:

“to increase demand of UHT (long-life) milk by 50% at the expense of raw milk and to decrease the price of UHT (long-life) milk from 30 cents US to 20 cents US per 250 ml. [a price reduction target of 33%], thereby improving accessibility of milk in order to positively affect the health of children and better utilize idle dairy capacity in Uganda.”

Over the last 17 months of the project, UHT demand has increased by over 250% and, since project inception, an effective, inflation-adjusted reduction of 23.6% in the price of 250ml UHT brick packs has been achieved. UHT production capacity utilization (of the increased capacity established with the assistance of this project) remains low. Over the last 12 months, Alpha's utilization of installed UHT production capacity has averaged 20.9%. DCL has fared a little better: 22.8%. Reasons for this are presented in this report. Alpha continues to make good use of the matching grant facility and MEDA expects that the residual portion of this fund will be fully expended by EOP. Except for continuing administration of the matching grant facility and monitoring UDPA and individual dairy activities, project activities have been completed.

More generally, the newly established UHT milk processing capacity is helping to stabilize milk prices for consumers. The option to produce a long shelf life product (UHT) to inventory enables dairies to increase the volume of raw milk purchased during the rainy season when prices are at their lowest, the effect of this being to reduce average input costs paid for raw milk. Despite cyclical raw milk price fluctuations and general price inflation, consumer prices of UHT have remained unchanged (at Ush 1,600/litre pack and Ush 1,300/litre pouch) for over a year. Raw milk producers also seem to be benefiting from the new UHT milk processing capacity as well. The ability to produce and sell a new milk product (UHT) is expanding the total size of the consumer milk market (relative to the available supply of raw milk). Higher demand for raw milk by dairies is bidding up the price paid for raw milk to producers. This year, the lowest prices paid (e.g.: during the rainy season) by dairies has been Ush 180/litre comparing favourably with price lows of approximately Ush 150/litre over the previous two to three years.

2.0 PROJECT GOALS AND ACCOMPLISHMENTS

The main goals of the project are:

- a) to increase production of long-life (UHT) milk products in Uganda from 25,000 litres per day (lpd) to 37,500 lpd (e.g.: by 50%); and,

- b) to increase consumer demand (for UHT products)

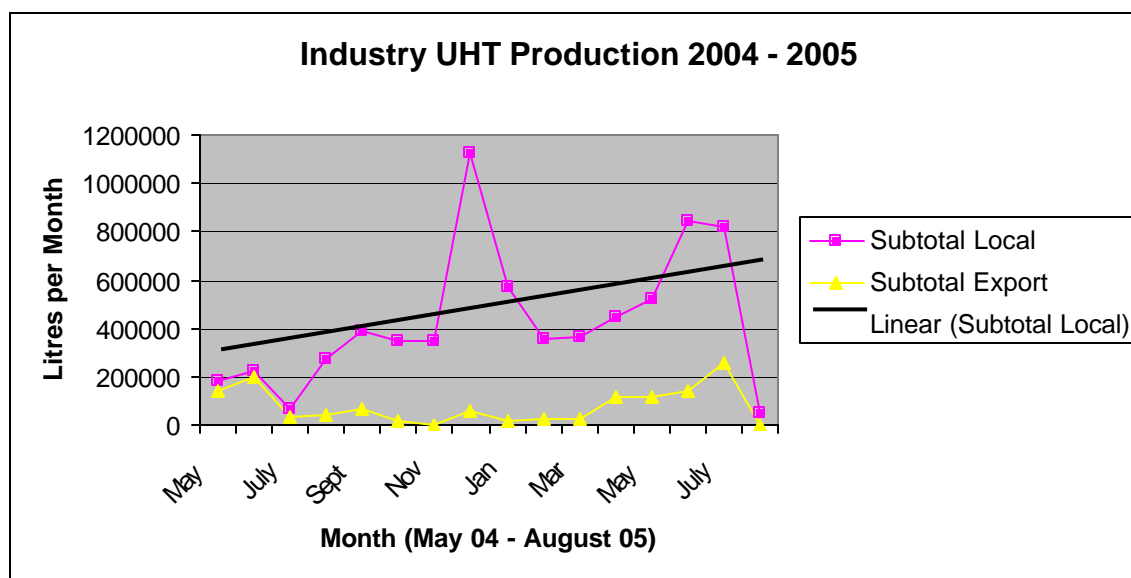
so that the dairy sector in Uganda becomes more efficient and prices of UHT long life milk fall from around 28 cents (USD) per 250 ml pack to about 20 cents (USD) per 250 ml pack.

UHT Production Volume Trends

Over the last sixteen months of the project ending 31st August 2005, aggregate production of UHT¹ has averaged 512,188 litres per month (lpm) reflecting average production of 17,073 litres per day over sixteen months up from an average 467,308 lpm (and 15,577 litres per day) over thirteen months to 31st May 2005 cited in the previous report. UHT production in August was negligible due to raw milk shortages attributable to drought.² Excluding the month of August, average daily UHT production averaged 24,500 lpd over the last 6 months, up from an average 18,388 lpd in the previous six month period. **Production of UHT in June and July reached 33,000 and 36,000 lpd respectively.** Steady progress is being made towards routinely achieving the project goal of 37,500 lpd.

Figure 1 below shows consolidated monthly UHT production and trend lines for all three dairy processors combined dating from May 2004 when UHT production by Alpha and GBK commenced. The August 2005 slump in UHT production reflects drought-induced raw milk shortages. UHT processors anticipated this and increased UHT production to inventory in June and July to cover UHT shipment obligations in August. Figure 2 shows monthly UHT production from the same date for each of the three dairies participating in this project. Trend lines indicate a steady increase in production. The peak aggregate UHT production level in December 2004 reflects stockpiling of UHT by processors ahead of the then anticipated start of the schools milk program (still yet to begin).

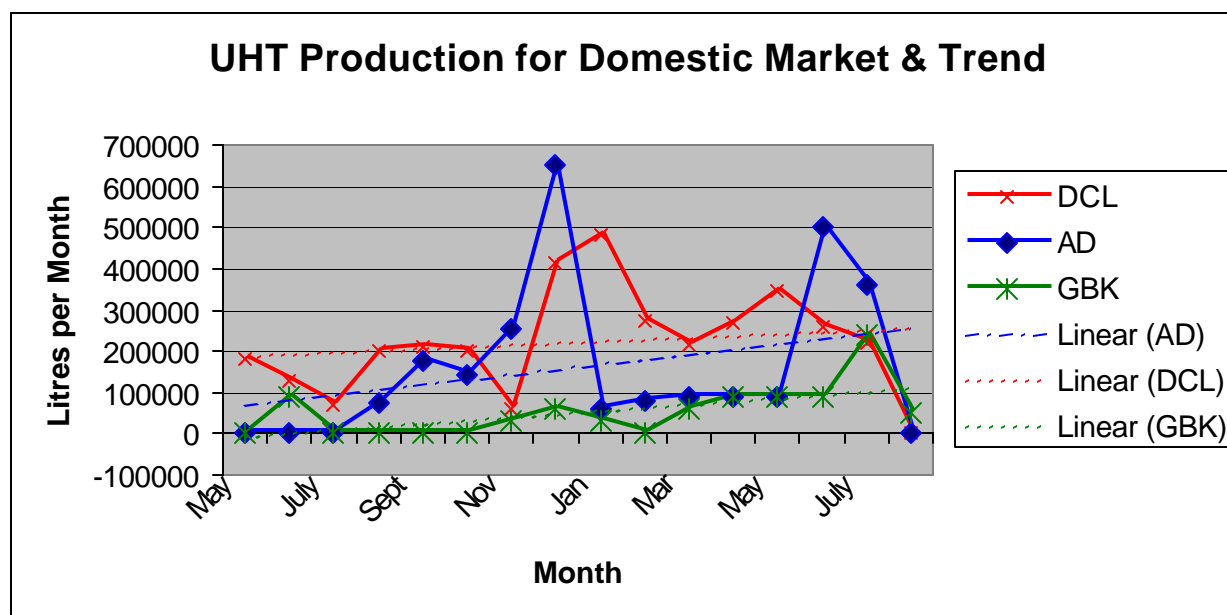
Figure 1



¹ DCL, Alpha and GBK.

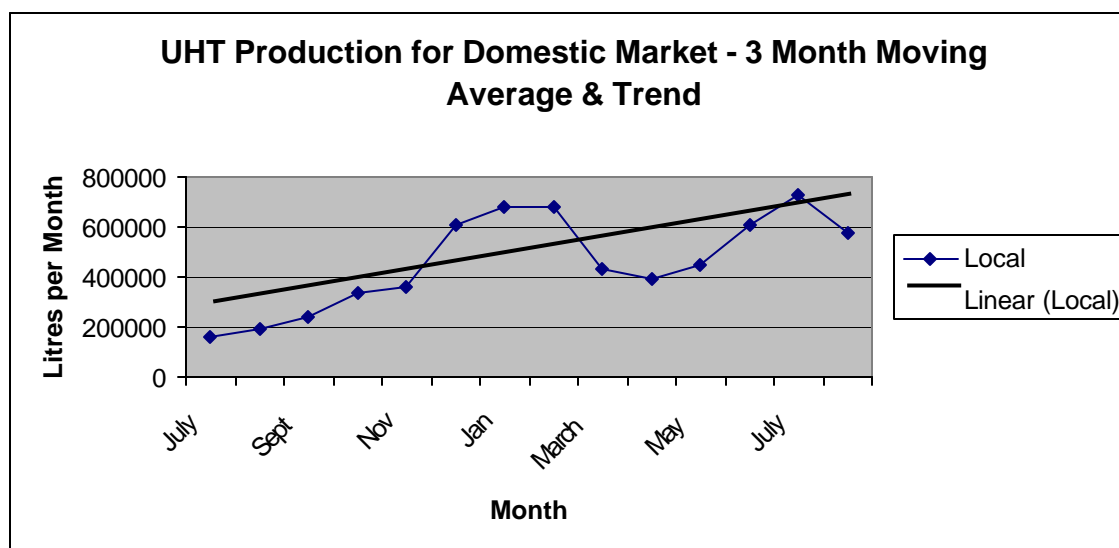
² Anticipating drought-induced raw milk shortages in August, processors increased their production of UHT in June and July and stockpiled a portion of this to cover UHT shipments anticipated in August.

Figure 2



Applying a three month moving average (TMA) to data for monthly aggregate UHT production (litres per month) shipped into the domestic market also reveals (Figure 3) that aggregate UHT production is increasing steadily: the TMAs for May to July 2004 and June 2005 to August 2005 are 156,667 and 572,667 respectively, an increase of 265%. Excluding August, the TMA for the May to July 2005 period is 731,000. These data are portrayed in Figure 3 below.

Figure 3



UHT production is a proxy for UHT demand. Based on these TMAs, it is reasonable to assert that demand for UHT has increased by well over 200% over the last sixteen months, substantially exceeding the goal of 50% over the life of the project. This suggests that the UHT promotion efforts of processors are paying off.

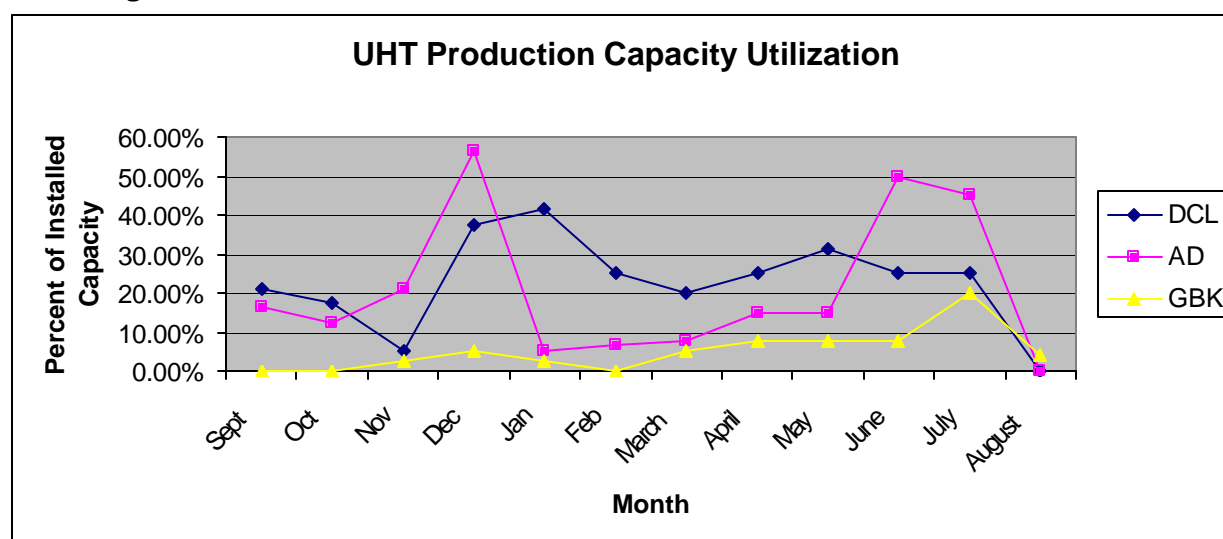
Alpha, now the only processor participating in the final months of this project, is continuing its'

UHT product promotion campaign. Alpha's campaign consists of a mix of road shows and purchased radio and print media advertising. Alpha has been notified that its' access to the matching grant cost share facility has been extended to 15th November 2005.

Utilization Of UHT Processing Capacity

Low UHT processing capacity utilization has continued as Figure 4 reveals.

Figure 4



The previous report pointed to two explanatory factors: substantial increases in UHT production capacity have been put into place (supported by this project) in anticipation of future UHT demand growth, the effect of this being to reduce capacity utilization for existing levels of consumer demand for UHT; and, delayed commissioning of Alpha's Combi-bloc UHT packaging line (this capacity included in aggregate UHT production capacity figures). That said, it should be observed that Alpha's UHT production levels in June and July in reality reflect close to 100% of its' currently available productive capacity since one of its' two lines, the Combi-block packaging line, is not yet operational.

UHT Retail Pricing Trends

UHT prices remained stable at US\$ 0.28 per 250ml brick during the reporting period. This price point represents a continuing gain (effective price reduction after accounting for inflation) over the US\$ 0.30 per 250ml price at project commencement (November 2002). Adjusted for inflation during the life of this project, this start price of US\$ 0.30 would now be approximately US\$ 0.37. In essence, an inflation-adjusted price reduction of roughly 23.6% has been achieved to date compared to a price reduction goal of 33% for the project. Note further that raw milk producers (mainly small dairy farmers) are also benefiting from higher farm gate prices, up by 15%-20% on a year earlier, for their raw milk due to expanding demand from milk processors.

The consumer price index actually fell by nearly 1% over May to August this helping to keep the retail price of UHT stable (Table 1 below), averaging US\$ 0.28 over the last 21 months of the project. The retail price of DCL's UHT remained at US\$ 0.28 per 250ml brick pack. Alpha's August selling price of UHT is Ush 1300, equivalent to US \$0.73 per litre pouch (or, US \$0.18 per 250mls).

Table 1

Period; supplier	Retail price per 250ml brick UHT, US\$
May 05 - Aug 05; DCL	0.28
Apr 05; DCL	0.28
Nov 04 – Mar 05; DCL	0.29
Oct 04; DCL	0.26
June – Sept 04; DCL	0.28
March – May 04; DCL	0.26
Dec 03 – Feb 04; DCL	0.26

UHT pricing has not increased in line with broader price inflation experienced in Uganda during the project period. The retail price of a DCL 250ml UHT brick was US\$0.30 at project commencement (01 September 2002). Table 2 below presents the impact of inflation (had UHT prices risen in line with inflation)

Table 2

Period	Impact on 250ml UHT brick retail pricing, US\$
Project start, 01 September 2002	0.3
01 Sept 02 – 30 Aug 03; 10.5%	0.332
01 Sept 03 – 30 Aug 04; 4.7%	0.347
01 Sept 04 – 28 Feb 05; 2.9%	0.357
01 Mar 05 - 30 April 05; 4.8%	0.374
01 May 05 - 31 Aug 05; -0.9%	0.371

Comparing the inflation adjusted price of US\$0.37 with the average real price of US\$0.28 over the 21 months ended 31st August 2005, it may be surmised that the project's interventions have assisted UHT producers to keep increases in retail pricing of UHT to levels substantially lower than general inflation rates. The effective price gain reflected in these figures (the difference between expected inflation-adjusted price and actual average price) now stands at approximately 23.6%. This compares favourably with the pricing goal of the project – a decrease in average 250ml UHT prices of 33%.

The balance of this report relates progress towards achievement of other project goals.

2.1 Goal: Mobilization of a Dairy Processors Association

Goal achieved. Membership of the Uganda Dairy Processors Association (UPDA) stands at 30.

2.1.1 Indicators of Goal

1. *Processors that have attended meetings are actively involved.* The UDPA convened the following meetings in the last three months:
 - On 10th June, the UDPA held a meeting to finalize Dairy Month (June) activities and brief members about the ESADA meeting in Nairobi in May.
 - Held a national press conference on 17th June to explain to the public the outcome of the ESADA meeting: a) John Anglin, UPDA Chairperson was elected chairperson of the interim steering committee of ESADA; b) ratification of ESADA's constitution.
 - Meeting on 15th July with EU consultant concerning the new grant, to be administered by SCOPE, which will further the interests of the UPDA itself and the milk processing sector at large.

2. *Regularly scheduled meetings.* Executive Committee meetings continue to be held.
3. *Association has a manual.*
In July, UDPA member subscriptions were restructured into new categories providing for smaller milk processing firms to pay a lower annual rate (Ush 10,000) than larger firms (Ush 150,000).
4. *Active industry leadership role.* New indicator of goal achievement. The UDPA is playing an increasingly proactive and prominent industry leadership role. Recent evidence of this includes:
 - On 26th August, the UDPA convened a meeting attended by UDPA members, the DDA and the Ministry of Agriculture to prepare for a conference in September concerning UHT school milk programs.
 - UDPA has notified of a US\$20,000 grant award from RATES for a generic UHT promotional plan that the UDPA intends to run.

2.2 Goal: Increase Quality Standards

The HACCP quality assurance activities of this project have been completed.

2.2.1 Indicators of Goal

1. *A guide defines approved dairy processing methods and criteria.* Goal accomplished.
2. *Processors that meet QS criteria receive "seal of approval".* No new progress to report.
3. *Processors receive (quality) technical assistance and training organized through the processors association.* Goal accomplished.
4. *Increased volume of UHT (long-life) milk is processed and more processors involved in production.* As reported above, UHT production volumes continue to rise. Three processors are involved in UHT production, up from two at project commencement.
5. *Increased volumes of milk in smaller (250 ml) packages.* DCL remains the sole supplier of UHT in 250ml bricks to the domestic market. Introduction of a 250ml brick pack product by Alpha has been delayed until September 2005 due to commissioning problems with its' new production line. Alpha has been supplying a 500ml pouch UHT product to the local market since August 2004 and GBK its' own 500ml pouch UHT product since November 2004.

Table 3 below presents UHT processing capacity utilization for last three months.

Table 3

Company	Installed Capacity (litres per month) ³	Production during the month			Capacity Utilization		
		June	July	August	June	July	August
Alpha	1,200,000	600,000	540,000	--	50%	45%	0%
DCL	1,200,000	300,000	300,000	--	25%	25%	0%
GBK	1,200,000	90,000	240,000	50,000	8%	20%	4%
Total	3,600,000	990,000	1,080,000	50,000	28%	30%	1%

³ Production capacity figures shown are based on 2,500litres/hour, 16 hours/day and 30 days/month.

Table 4 breaks down UHT milk production by package size over the last three months.

Table 4

Package Size (ml)	June	July	August	
	lpm	lpm	lpm	percentage
DCL:				
Brick 250 Local	130,000	110,000	--	0%
Brick 500 Local	128,000	110,000	--	0%
Brick 250 export	20,000	40,000	--	0%
Brick 500 Export	22,000	40,000	--	0%
Sub-total	300,000	300,000	--	0%
GBK:				
(Brick 250 (Champ)	-----	-----	--	---
Brick 500 (Champ)	90,000	90,000	20,000	40%
Pouch 500 (Classic)	-----	150,000	30,000	60%
Sub-total	90,000	240,000	50,000	100%
Alpha:				
Pouch 250 local	-----	-----	--	0%
Pouch 500 local	500,000	360,000	--	0%
Pouch 500 Export	100,000	180,000	--	0%
Sub-total	600,000	540,000	--	0%
TOTAL	990,000	1,080,000	50,000	

6. *Project funds help processors meet quality standards and improve UHT long-life processing and packaging in smaller containers.* This activity is complete.

2.3 Goal: Brand Name or “Quality Approved” Advertising

2.3.1 Indicators of Goal

- a) *Market research report is a basis for brand name or quality approved milk-advertising initiatives.* No new market research is planned.
- b) *Financial Assistance given to increase producer participation in advertising.* As indicated in the previous report, the project has discontinued providing financial assistance to DCL for UHT promotion. There are two reasons for this. First, due to uncertainties over its' corporate ownership future, DCL's current management is not prepared to commit the company to a significant UHT promotion effort at this time. Second, MEDA determined that a greater impact (in relation to project goals) is more likely to be achieved by allocating all remaining funds to assist Alpha to expand and extend its' very aggressive UHT campaign.

During the last three months:

- a. MEDA settled DCL's final claim for 50% of eligible UHT promotional expenses up to 30th April 2005. The payment amount was US\$ 1,532.28.
- b. MEDA settled an interim claim from Alpha for eligible expenses. The payment amount was US\$ 12,410.26 and covered eligible expenses up to 31st July 2005.

Approximately US\$ 18,400 remains available to Alpha in the UHT promotion matching grant facility.

- c) *Increased public exposure to brand name or quality approved milk advertising.* Alpha's promotion campaign of its' branded UHT products includes media placements (radio and

news print media) and its' highly visible road show involving prominent visual displays and audio promotions is presenting Alpha's UHT products directly to consumers in dozens of urban centres around the country.

2.4 Goal: Increase Supply of Milk for the School Nutrition Program

The project's lack of capacity to effect positive change in this area has been reported previously. The WFP tender continues to be held up by political considerations. Until government or donors step in to subsidize the cost of supplying UHT milk to schools, processors are unlikely to venture into this 'market'.

3.0 FINANCIAL

The awareness and advertising budget, the main programming area still under budget, is on track to be fully utilized by the end of the project. MEDA has made some minor adjustments across budget lines within the current total grant envelope to ensure continuity (to end of November 2005) of the project's dairy monitoring activities on the ground for a portion of the extension period.

4.0 MANAGEMENT ISSUES, CONCERNS

Reasons for the time extension of the project are stated in Section 1. There are no other project management issues to report at this time.

5.0 CONCLUSION

It is expected that Alpha will utilize most of the US\$ 18,400 residual amount in the UHT product promotion matching grant facility by November 15th, the closing date of this facility. Alpha's final claim will be settled in early December. This aspect of the project is proving reasonably successful. Consumer demand for UHT is growing and UHT production levels are increasing steadily, as Figures 1 to 3 reveal, to meet growing demand, largely now driven by Alpha's UHT promotion efforts. The project remains on track for completion by 31st December 2005.